

**COMMONWEALTH HEALTH RESEARCH BOARD
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 1999**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Commonwealth Health Research Board for the year ended June 30, 1999, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

February 14, 2000

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

COMMONWEALTH HEALTH RESEARCH FUND AND BOARD

When Blue Cross and Blue Shield of Virginia converted from a mutual insurance company to a corporation, Trigon Healthcare, Incorporated, the Commonwealth received stock in the new company as a part of the conversion. The Commonwealth received the stock on August 5, 1997, which it sold systematically thereafter. At the direction of the General Assembly, the Commonwealth placed the proceeds into the Commonwealth Health Research Fund under the direction of an appointed Board.

The Code of Virginia allows the Board to use 90 percent of the Fund's investment income for research and other grants to promote health and medical research within the Commonwealth. The Board oversees the award and administration of the grants, the State Council of Higher Education provides administrative and accounting support, and the Virginia Retirement System invests and manages the funds. The balance in the fund at June 30, 1998, was \$23.3 million and grew to \$27.6 million at June 30, 1999.

During fiscal year 1999, the Board reviewed the methods and means of making grants and developed specific procedures for grant awards from the Commonwealth Health Research Fund. The Board distributed the first set of awards in January 2000 to nine recipients representing a broad spectrum of health and medical research concerns.

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Commonwealth Health Research Board** for the year ended June 30, 1999. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Board's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Board's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Expenditures
- Revenues
- Investments

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Board's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Board's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Board records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

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COMMONWEALTH HEALTH RESEARCH BOARD
Richmond, Virginia

BOARD MEMBERS

Hunter B. Andrews, Chairman

David L. Bernd
Robert P. McBride, III
R. Earl Nance

Edward R. Parker
Eliot S. Schewel
Alson H. Smith, Jr.